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ABSTRACT

The report presents recommendations of Maine's Task Force on Postsecondary Education Funding, which examined the effectiveness of existing postsecondary financial aid programs serving Maine students and identified ways to ensure that costs of postsecondary education are affordable for aspiring and qualified students. After a statement of financial aid principles (e.g., student aid based on need and student choice), recommendations concerning the evaluation of student and parent aspirations are presented. The following topics are briefly discussed: Stafford loan programs; secondary market activities; the Perkins loan program; nonfederal college loans; other nonfederal loans; delinquencies, defaults, and debt; investment programs; early savings; educational savings plans design components; loan origination and related services; and the Maine Student Incentive Scholarship Program. Many of these discussions offer comparisons with other states and recommendations for Maine. Appendices include definitions of higher education funding terms, a table of default rates by state, and other supporting data. (DB)

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MAINE DEPARTMENT OF EDUCATIONAL AND CULTURAL SERVICES

TASK FORCE REPORT ON POSTSECONDARY EDUCATION FUNDING

1988 - 1989

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Special thanks to Dr. Robert Goettel, University of Southern Maine and Mr. Fred Douglas of the Department of Educational and Cultural Services for their able assistance on the project.

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TASK FORCE ASSIGNMENTS

The Task Force on Postsecondary Education Funding was established during November, 1987 by the Commissioner of Education, Eve M. Bither. The Task Force was asked to accept the following assignments:

- To study and evaluate the effectiveness of existing and potential postsecondary financial aid programs including those established by state and federal statutes and other financial resources.

- To determine how the programs and resources can be expanded and/or coordinated better to meet the financial needs of postsecondary students.

- To determine if and to what extent the lack of sufficient financial aid may deter students seeking higher education.

- To review and evaluate the current servicing of loans under the Maine Guaranteed Student Loan Program. The review should include an analysis of servicing activities for public and private guarantee agencies in other states, and determine whether these activities could be expanded to provide a source for higher education and financial aid information for prospective Maine students.

- To make recommendations which will identify ways to increase the aspirations of students to attend postsecondary educational institutions through more effective financing arrangements.

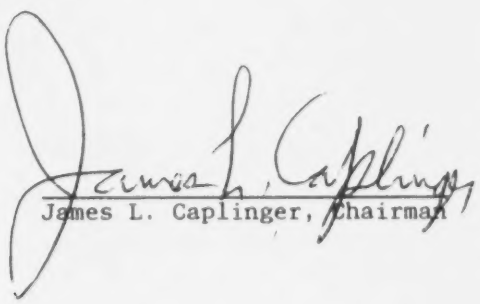
- To make legislative and long range planning recommendations for a comprehensive program which will attempt to ensure that costs of postsecondary education are affordable for aspiring and qualified students.

MESSAGE FROM THE TASK FORCE CHAIRMAN

The report of the task force makes some suggestions for immediate implementation, makes some suggestions for legislation, and notes the need for continuing research. The focal point of this report is its call for creation of a state authority or corporate body to provide leadership and coordination in directing financial aid services. In addition, it should accept some functions which are currently the responsibility of the Department of Educational and Cultural Services. It also should provide greatly increased information about higher education services in Maine to our students and parents.

The work of a task force is always limited by time. Task force reports are essentially a "snapshot in time." If, however, the corporate body suggested above is established and if it accepts the vision of this task force, then the work of this task force can continue through time as its recommendations are considered, implemented, and modified by the authority or corporate body in consultation with the Department of Educational and Cultural Services as well as the Legislature.

Even if the state authority or corporate body is not established, the remaining recommendations are presented for consideration. The task force members believe they are worthy of the support of both the Commissioner and the Legislature.



James L. Caplinger, Chairman

PROPOSED STUDENT FINANCIAL AID PRINCIPLES

The Task Force concluded at the very beginning that it needed to establish a set of guiding principles concerning financial aid for Maine. The following set of principles was overwhelmingly adopted by the Task Force and is recommended for adoption by the State Board of Education and by the Department of Educational and Cultural Services as policy for the State of Maine:

Student Aid Based on Need

- The student and his or her family (including parents, guardians and/or spouse as relevant) are primarily responsible for the student's cost of education. Student costs of education are defined as tuition and required fees, books and supplies, room and board, personal expenses, and transportation.

- Maine's role is to supplement such student and family resources when they are not sufficient to cover educational expense. The presumption is that state aid is not to be used to replace student or family responsibility.

- To best coordinate its efforts, the state should provide these need-based programs: scholarship, grant, loan, and employment. Whenever possible, such programs should be coordinated with federal and institutional aid.

Student Choice

- To the greatest extent possible, the student should be free to use any aid that Maine provides in a program at an educational institution of his or her choice accredited by an accrediting agency which is included on a list available from the New England Board of Higher Education and approved by the Commissioner of Education. The aid should be available to full-time and part-time students, and they should be able to use any aid at either in-state or out-of-state institutions. If restrictions on portability are applied in any program, Maine should recognize state reciprocity provisions.

Public Policy Programs

- If the state chooses, from time to time, to institute new programs of assistance to students or institutions that are not based on financial need but that satisfy some need of the public at large, such assistance should not lead to any reduction of funding for existing need-based programs.

Financial Aid Review

- Such state assistance as may be provided students (including need-based aid programs) should be reviewed regularly so that it can be altered, condensed, expanded, or terminated when the public need for such assistance no longer exists.

Supplemental State Programs and Information Services

- The State of Maine should encourage programs of service, either state or nonprofit, designed to help students and families, especially parents, both to plan and to meet their share of a student's educational costs under the most favorable terms possible.

Student Financial Aid Research and Development

- The State of Maine should encourage the designation of, and consider providing funding for, some agency, organization, authority, or corporate body, either state or private nonprofit, to provide basic information about and to seek to develop the other-than-state resources available for funding postsecondary education. This would include resources from specific institutions, from the private sector, and from other governmental units.

(Refer to Appendix A for a definition of terms commonly used when discussing financial aid for higher education)

STUDENT AND PARENT ASPIRATIONS

A determination was made by the Task Force that discussion of the adequacy of the levels of financial aid funding and the adequacy of the mechanisms for distributing those funds to students could not be answered without recognizing the correlation of student and parent aspirations for students as they relate to postsecondary education.

Lack of financial aid is a major deterrent to students seeking a postsecondary education. This belief is supported by recent research conducted by The College Board and by a national Gallup Poll (both in 1988). There is inadequate communication within the State of Maine about available financial aid and this lack of communication is definitely a deterrent.

It is strongly recommended that the new authority or corporate body recommended by this task force be charged with conducting research about the link between financial aid and higher education aspirations and with communicating financial aid information widely throughout the State.

Additional research is needed, and other groups in the State have been charged with conducting that research about aspirations. Therefore, the recommendation is that support for such research be continued and that the findings be shared so that new education initiatives can result.

Even before the conclusion of such research, the task force suggests that existing programs which directly relate to student aspirations be continued and, in fact, be considered for increased funding levels. Pending the conclusion of the research referred to above, the task force reached the conclusion that, with one exception, the programs are in place which are necessary to alter in dramatic ways aspirations for students and parents in Maine. What is needed is both continued and increased funding.

Recommendations

- That the Maine Aspirations Project of the University of Maine have access to and be able to utilize the Maine Educational Assessment testing program for aspirations research purposes, and that the project specifically research the impact of availability of higher education funding on student-parent aspirations toward continued postsecondary education.

- That the State of Maine provide funding for existing and new programs designed to assist students from disadvantaged backgrounds. Examples of these types of programs are the Maine Educational Talent Search and Upward Bound Program at the University of Maine and the additional Special Services programs provided for students at six other Maine universities and colleges. These programs are designed to assist nontraditional and disadvantaged students in the seeking and attaining of postsecondary education by providing outreach programs to high school students and support services to students already enrolled in a college program. Additional funding would not only enhance programs currently in existence but would also promote the creation of additional new programs. Talent Search and Upward Bound are specifically recommended for special emphasis and increased funding while there is continuing study of the cost effectiveness of each program. (Refer to Appendix B for a summary of the TRIO Programs)

- That higher education information services to Maine students and adults be significantly expanded. In addition to services already in existence, new services should include outreach and early awareness programs for high school, elementary, and junior high school students, more adult postsecondary education information and counseling or career awareness services, increased publication of higher educational opportunities, and increased public awareness programs for higher educational opportunities.

- That the new loan authority maintain close links to the Maine Aspirations Compact and the Maine Aspirations Foundation for the purpose of exchanging information and possible joint projects.

Overview

The task force recognizes that borrowing is a legitimate method for financing educational costs. It also recognizes the wisdom of responsible borrowing in combination with using grants and student employment, especially when a high debt level may dampen aspirations or increase the risk of default. Rather than attempting to establish arbitrary ceilings on such debt (which would never work because of individual and family differences in fiscal resources), the task force believes that expanded and more detailed information about borrowing should be made available to students and parents. The quality and amount of such information presently received is very uneven -- depending on the institution involved and other factors. The task force sees this provision of information as a service to be provided by the authority or corporate body recommended for establishment previously.

The task force does not see a lack of loan programs or a lack of available loan dollars. The range or programs is not the problem even though some people are not aware of programs that exist and are available.

Information about such programs and their coordination need additional emphasis in Maine. We need good consumer information provided by the new authority, the various institutions of postsecondary education and other sources.

STAFFORD LOAN PROGRAMS

Loans to students and their parents have become an integral part of the packaging of financial aid for students at postsecondary educational institutions. This report surveyed and attempted to quantify existing loan programs, comment on their advantages, disadvantages, and general usefulness, and will conclude with certain observations, conclusions, and recommendations.

The most widely used programs of student loans in Maine and throughout the nation is the Guaranteed Student Loan program (GSL) now currently designated as Stafford loans. These need-based loans are made by lending institutions (and occasionally by educational institutions and guarantee agencies) to students attending postsecondary institutions of higher education. The lender is insured against loss of principal and accrued interest through a guarantee extended by the United States Department of Education through an agency designated by the state. In Maine's case, this contract is currently awarded to United Student Aid Funds, Inc. (USAF). Loans are available in amounts of $2,625 per year for students prior to attainment of junior level standing in a baccalaureate program. The limit of $4,000 applies for each later year of study. Interest rates vary with the rates of the U.S. Treasury obligations. The borrower neither pays nor accrues interest during his or her in-school period and for six months thereafter. Loans may then be amortized over periods of up to ten years (and, under certain circumstances of loan consolidation, for longer periods).

The lender is paid the contract rate of interest directly by the U.S. Department of Education during the in-school period, and thereafter by the borrower. The lender additionally receives from the federal government a supplemental interest payment to provide a reasonable rate of return and to induce the granting of such loans. Lenders are forbidden to exercise any credit judgement on GSLs and must provide loans on a nondiscriminatory basis.

Currently, 83 lenders in Maine participate in the GSL program, lending $33.6 million for fiscal 1987. This program also includes federally insured loans to parents (PLUS loans) in the amount of $1.1 million for 1987 and loans to independent students (SLS loans) in the amount of $.6 million in 1987. (Refer to Appendix C for an analysis of the most recent four years of loan activity in Maine)

SECONDARY MARKET ACTIVITIES

One cannot view the volume of lending in the GSL program in Maine, and indeed throughout the nation, without noting the existence of the secondary market for GSLs. In Maine, the Maine Educational Loan Marketing Corporation (MELMAC) is designated by the Governor and the State Board of Education to purchase GSLs from Maine lenders. Other secondary market outlets are available within the New England region with the availability of the New England Education Loan Marketing Corporation (Nellie Mae) and the Student Loan Marketing Corporation (Sallie Mae) is the major factor on the national level. The existence of such a secondary market offers liquidity to a lender's portfolio and allows the "recycling" of funds committed to student loans. This market is a major factor in the availability of these loans.

A further discussion of the role of Maine's secondary market, MELMAC, and related activities is presented under the section entitled Loan Origination and Related Services.

PERKINS LOAN PROGRAM

A second form of federally supported lending to postsecondary students is the Perkins Loan Program (formerly known as the National Direct Student Loans "NDSLs"). Upon application, institutions are advanced federal funds through the U.S. Department of Education (matched in part by the institution) to be loaned at below-market rates (currently 5%), with repayment over a 10 year period after graduation. Institutions are encouraged to recycle principal payments on Perkins Loans.

NONFEDERAL COLLEGE LOANS

Other loan plans offered by nonfederal sources are important in Maine. Educational institutions frequently offer loans to their students and parents from endowed funds given for this purpose. These loans are made at reduced rates of interest (or without interest) and offer extended repayment terms. At least two colleges in Maine (Bowdoin and Colby) have borrowed money by the issuance of tax-exempt bonds through the Maine Health and Higher Educational Facilities Authority and have re-loaned these funds to parents, with repayment over a 10-15 year period.

Supplemental Family Loans

Nonprofit organizations have been created by legislative action to raise funds for educational loans. The newly created Maine Educational Loan Authority (MELA) offers loans from funds derived from the issuance of tax-exempt securities. Over $5 million was distributed to families in the Fall, 1988 for purposes of postsecondary education. Another such product is available through Nellie Mae which makes monies for students and families through its EXCEL program.

Bank Loans

Banks and other businesses organized for profit offer a variety of loan plans designed to ease the burden of the costs of higher education. Probably the program of commercial lenders most widely used to spread these costs over long periods of time is the so-called "home equity loan." No statistics appear to be available as to the use of this program for educational expenses (as these monies are available for a wide use), but financial aid officers and bankers agree that such loans are an important source of funds for postsecondary education funding.

Private Loans

Foundations and service clubs offer loan programs in many areas and through many secondary schools. The total of such loans does not appear to be statistically significant, but the spirit of these programs, and their value to those who benefit from them, make them worthy of mention.

BLAINE HOUSE SCHOLARS AND PAUL DOUGLAS SCHOLARSHIP

The State of Maine offers loans to postsecondary students through two programs and these are administered by the Department of Educational and Cultural Services:

- The Blaine House Scholars program offers interest-free loans to both students and teachers. Repayment may, under certain circumstances, be made in the form of returned service for teaching in Maine. About $1,450,000 was available for loans in 1987-88, with about 1,000 recipients in the program.

- The Paul Douglas Teacher Scholarship program provides renewable loans to those who plan to enter the teaching profession. These loans may be repaid by teaching service throughout the United States. In 1987-88, 19 recipients borrowed approximately $60,000 through this program.

The federal government, through Congress and the U.S. Department of Education, has taken official notice of the matter of delinquencies and defaults and threatens to withdraw the availability of these loans to students at institutions whose previous borrowers have compiled a poor record of payment.

The default rate in Maine approximates two-thirds of the national average, so the problem here appears less severe than in many other states. A word of caution concerns the calculation of default rates by the U.S. Department of Education as it is a controversial matter. Such rates might be calculated in many different ways, but the method using comparative rates among states and among institutions probably has validity. It should be noted that almost half of GSLs which go into default are ultimately repaid in full.

Efforts on the part of holders of GSLs to enforce collection must continue. Programs of loan consolidation appear helpful to some in reducing defaults. It encourages postsecondary institutions to consult with their students regarding their responsibilities for loan repayments. An appropriate remedy for excessive defaults is not the exclusion from the program of students currently enrolled at institutions with high default ratios. Rather, there should be shared responsibility involving the student borrower, the educational institution, lending institutions, and the state to assure that students at risk receive necessary support services to reduce risk of default. (Refer to Appendix D for a list of the default ratios among Maine institutions as of 1986)

The future availability of loans to students and to parents for the financing of postsecondary education must be considered. It concludes that there appears to be no movement on the part of the lenders to withdraw from the major component of the loan program involving GSLs. Over the past few years, the eligibility for GSLs has been curtailed, the yield to lenders has declined, and the complexities of administration for both educational institutions and lenders has increased. The federal guarantee may no longer be inviolate. A continuation of these trends will indeed do harm to the GSL program. Therefore, the continuing development of alternative programs of loans to students and their families is most important. This should be the responsibility of the authority or corporate body recommended for establishment.

Recommendations

- Students and their families should be encouraged, through early counseling, to plan in advance for the funding of postsecondary education.

- Postsecondary educational institutions should offer counseling to their students, both concerning the amounts to be borrowed and concerning legal and moral obligations to repay such borrowings.

- Loans to students at postsecondary educational institutions should, where possible, be part of a package of financial assistance.

The acquisition of education beyond the secondary school level is indeed a capital expenditure, which will provide returns both monetary and personal in nature to the student. It is thus appropriate that students and their parents finance the acquisition of an education as they finance the acquisition of cars and homes -- over a period of years through the judicious use of borrowing in combination with other means of financing.

The cost of financing a student's education beyond high school is of great concern to most parents today. Between 1977 and 1987, independent four-year colleges raised tuition by an average of 114%, compared with a rise in the Consumer Price Index of 87% over the same period. The cost of a four-year college education at many independent colleges is approaching the average price of a home in the United States. According to 1988-89 data released by The College Board, tuition and fees at four-year independent colleges now average $7,693 while public universities remain considerably lower with average tuition and fees of $1,566. Adding between $4,500 to $5,600 for room and board, books, transportation and other personal expenses, this brings the average annual cost at an independent school to over $13,000 and the average public college cost to nearly $7,000.

Within the context of the rising cost of education, it is important to define the scope of individual "investment" in financing higher education. The responsibility for financing educational costs should be a shared one with the consumer, institutions of higher education, the government, and the private sector all involved. Both short and long term investment strategies are desirable in order to achieve the generally accepted goal that higher education should be available to all who aspire and qualify to enroll regardless of cost. In order to achieve this goal, more discussion and planning will need to occur. Knowledge of selected investment strategies is useful to serve as a framework for decision making, however.

Investment Perspective

Investment is the use of money to earn income or profit. Most people invest part of their incomes for future financial gain. Others make investments to protect the purchasing power of their savings against rising prices. Within the context of investment, there are six major kinds of investments. These are (1) savings accounts, (2) life insurance, (3) business investments, (4) real estate, (5) bonds, and (6) stocks. Individuals and families save money for many reasons. They may want to buy a home, an automobile, new furniture, provide for retirement or for a vacation. Many parents save money to deal with a sudden illness or other emergency that may not be covered by insurance or by monthly family resources. For many parents, the largest investment they will ever make -- after a home -- is their children's education.

Personal Income

The per capita income for the State of Maine is one of the lowest in the nation. According to the U.S. Bureau of Economic Analysis, Maine ranked 39th in 1980, and 32nd in 1986. In Maine, personal income per capita (current dollars) was $7,224 and six years later it rose to $11,106. Although the state's personal income is growing, it still ranks lowest within New England.

Personal Savings

The ability of a family to save for future educational costs is directly tied to a number of variables. If personal income is reduced by the tax burden from all governments, the resulting figure is called disposable personal income. When the spending of individuals for food, clothing, shelter, etc., is subtracted from disposable personal income, only a small fraction of the personal income is available for personal savings. This has a real impact on the ability of Maine families to use this as a resource for funding postsecondary education. There has been a dramatic decline in the amount of personal savings available from disposable income in the United States over the past two decades as depicted in the Table below:

TABLE I

United States Percent of Savings from Disposable Income
By Year

Calendar Year	Personal Savings
1970	8.1
1980	7.1
1981	7.5
1982	6.8
1983	5.4
1984	6.1
1985	4.5
1986	4.3
1987	3.5 (estimated)

U.S. Department of Commerce

Family Financial Plans

Many children born in 1988 will be enrolled in college in the year 2006. For those families that show an interest in making plans today for their children's educational future, they will certainly have everything to gain and more to lose if they do not save at all.

In a recent national survey conducted by Stanford Research Institute (SRI), it was found that 47% of American adults plan to help a child under the age of eighteen pay for college. Of further interest to educational planners is that 72% of adults plan to help their children pay for college; 24% will help a grandchild or great grandchild; 16% will help a niece or nephew; and 10% will help some other child. When the adults in the study were asked, "How will they help?", the responses fell into three categories:

- 84% will rely on savings
- 76% will rely on current income
- 44% plan to borrow funds

While most adults in the survey are willing to help children with college, only 31 percent are aware of new savings and borrowing programs. Given the high level of expectation and low level of awareness of programs specially designed or marketed for college assistance, there may be important opportunities in the banking industry for supporting the American people in their desire to assist their children. This aspect clearly plays a vital role in any investment strategy for Maine families.

Concepts

Investment in education is a capital investment. It is money spent to produce a return. The return in this case would be in the form of increased earnings. Lifetime earnings of the college educated surpass those of the high school graduate. This return on investment is analogous to an enterprise for profit. Educational capital investment may also produce a nonfinancial return such as improved life style, freedom of choice, and internal satisfaction. This would be somewhat similar to a "not-for-profit" institution that produces a return but not necessarily a financial return.

Who Pays?

How do we presently invest in higher education? Consideration of tax savings plans, tuition equalization, financial aid packages, and personal responsibility are issues to be discussed. Essentially, today's higher education system is based on four sources of financing:

- Students. The students, their families, and supporters pay tuition and fees through present dollars (savings and income) and through future dollars (loans). Whatever the amount, this source is the greatest single source of financing in most independent colleges and universities; it is a smaller source in public institutions.

- Government. Through grant-in-aid programs, special programs, grants and contracts, government agencies support the financing of higher education through the institutions or through the student. For most public institutions, the state government is the greatest single source of financing higher education. The exception to this would be a two-year college in states which permit sponsorship by a local taxing authority and thus support by property revenues. However, this does not apply to Maine.

- Gifts. Scholarships, capital gifts, endowment monies, and items of value have historically been provided by donors to both public and independent colleges. Total giving has continued to rise yearly in higher education. The proportion of gifts to public institutions has been rising by both total dollars and relative to the percentage of total dollars given.

- Other. This category includes all other sources of financing. Included here are auxiliary services or enterprises of colleges and universities that are now under scrutiny by the House Ways and Means Oversight Subcommittee relative to unrelated business income for nonprofit groups. For most institutions, whether public or independent, these activities may produce cash flow but do not usually contribute more than 10 percent to a college's annual operating budget. The exception may be an institution that has development projects that serve in lieu of, or supplemental to, endowment funds.

Families Should Be Encouraged To Save For Education Beginning When Children Are Young

Our country does not have a laudable savings record when compared to other western countries. Rather than delayed gratification of reward through saving, we have accepted the social contract of "instant gratification" by borrow now and pay later. This attitude is evidenced by student financing of college costs through increased debt burdens. College students, once drawn from the wealthy and privileged minority, were able to pay for college from current funds. However, with the democratization of higher education as well as increased cost, "pay-as-you-go" is no longer viable for many students. Therefore, families must be encouraged to save as much as they can for as long as they can.

We recognize that this position presents a conflict. Parents with young children are raising children and buying houses; both of these costs are also rising. Furthermore, this process will be compounded with future generations as student loan indebtedness increases. Young children will graduate with college debt, forcing new families to face these costs while saving for their own children as they are able or willing. The issue of willingness must be addressed in order for an investment to occur. For a family to dally, or even cut back on certain consumption items to increase savings does yield a reward. That reward takes the form of even greater financial resources in some future period. By forgoing a dollar of spending today, a person can enjoy more than a dollar's worth of spending in the future. By whatever means possible, the saving concept must be promoted.

Educational Savings Plans Should Be Simple In Design, Provide An Incentive, Be Flexible In Terms of Redemption And Must Be Fully Portable

Simple in Design. One of the major reasons that the Individual Retirement Account (IRA) has been successful, at least with certain income groups, is its simplicity. An educational savings plan must have a similar level of simplicity so that the average family can grasp the issues quickly.

Provide a Tax Incentive. The public has responded to opportunity for tax savings through IRAs. Providing tax incentives for expenses results in encouraging people to borrow, such as for home equity loans. College investment plans must reward savings. Earned interest that is used for educational costs should not be taxable income (at least for low and middle income families). The principal, at the time of deposit, should be sheltered to provide tax-exempt income.

Be Flexible in Terms of Redemption. The saving program should reward those who save for college; however, it should not harshly penalize those who save and for a variety of reasons cannot apply the savings to a college education. The tax incentive should be lost in order to ensure the savings use is consistent with the intent of the plan. The penalty for change of use would be the loss of the incentive, not a loss of earned interest. The program could allow for conversion or withdrawal at any time -- as with IRA -- with a known penalty.

Fully Portable. The program must not discriminate between kinds of institutions of higher education except as recognized by the U.S. Department of Education. The savings program should be used to support the cost of any postsecondary institution including public, independent, and proprietary institutions at the graduate and undergraduate levels.

Operationally Diversified and Decentralized. Commercial banks, savings and loan institutions, credit unions, and other financial institutions can publicize, implement, and monitor a saving program more effectively than a public network operating an investment program. A state agency could not provide the coordination necessary. It would also be difficult for any central state agency to properly serve the target population.

Tax Dollars. The private sector should set the rate, implement the program, and on a fee-for-service basis, support any required central coordination. This would ensure that tax revenues are not used to create or operate a public bureaucracy that answers to the state and not to the users.

Recommendations

- All activities of the state and the authority or corporate body ought to be aimed at changing attitudes in accordance with Principle I. Financial institutions should be brought into discussions concerning methods by which to accomplish this. To the extent that investment programs can be developed, there should be no guarantee at all of future tuition rates or of investment results.

  Since the new State of Maine Educational Enhancement Deposit (SEED) Act was passed in 1987, the Internal Revenue Service has ruled to impose tax liability on the saver at time of redemption. Since the tax incentive appears to be no longer available, further study of the Act is warranted. If tax and legal constraints cannot be overcome, then the Act should be repealed. The SEED board has asked advice and counsel from the Governor and legislative leaders following issuance of a private letter by the Internal Revenue Service and an opinion by the Maine Attorney General's office which appear to make the existing SEED legislation unworkable. Further consultations among the Legislature, the Governor's office, and the SEED board to devise a new approach, seems to be indicated.

  The State of Maine should develop or revise the existing investment program incorporating the elements articulated in Principle II.

Strategy

- The program would require legislative action to incorporate the tax incentive relative to Maine taxes.

- The Commissioner should gather a small group of advisors including college administrators, college financial aid administrators, legislators, and financial institutional administrators to draft enabling legislation. Clearly, the private sector and the recommended authority should be involved.

- The enabling legislation should take cognizance of, and be consistent with, pending federal legislation, which federal legislation is supported by the task force, but actions should not be delayed. Tax incentive relative to state tax can be build into the legislation immediately. Continuing costs would be absorbed by the program as stated in Principle II. A number of other state's experiences, notably programs in Massachusetts, Illinois, and others should be studied.

LOAN ORIGINATION AND RELATED SERVICES

How it Works

Initial eligibility for a loan is determined at the financial aid office of an educational institution, and the application process is initiated. Application information is then forwarded to a local financial institution participating in the guaranteed student loan program which completes the application. It is then forwarded to the United Student Aid Funds, Inc. (USAF) with whom the State of Maine currently contracts to provide guaranty services. USAF reviews the application and information and, if the application is approved, notifies the lender. The lending agency then disburses the loan proceeds to the student. Many lenders immediately sell their loans to the Maine Educational Loan Marketing Corporation (MELMAC), which is the state designated secondary market for student loans. MELMAC currently contracts for its servicing with CSX Technology, a Florida corporation. Some lending institutions retain their loans until the student leaves school and repayment starts, at which time they then sell the loans to MELMAC. A limited number of lending institutions retain the loans for the life of the loans and service them themselves. It was clear that this fragmented procedure often leads to frustrating and debilitating delays which, among other things, place serious financial strains on students awaiting loan proceeds. On the repayment end, delays and mix ups lead to default situations. It is assumed that a more efficient system would reduce the risk of defaults.

The Guarantee Fee

The State of Maine charges student borrowers the maximum guarantee fee of 3% and pays USAF to provide guaranty services for all loans for the state. Competitive independent guaranty agencies such as USAF or HEAF offer independent guaranty services in the range 3/4 of 1% to no fee. Other agencies vary their fees, such as the Vermont Student Assistance Corporation (VSAC) which currently charges only 1% but is considering a fee increase to 2%. Since flexibility is permitted in the fee structure, this is an item that needs to be further examined. It is possible that in the future, other guarantors could come into this state and potentially undercut Maine's guarantee business due to the imbalance in the fee structure.

Another State's Approach

The Vermont Student Assistance Corporation (VSAC) can serve as an effective model of the coordination and delivery of loan origination and related services. A brief overview of the agency is presented as a framework for adaptation in Maine.

VSAC is a public corporation, as distinguished from a private nonprofit corporation, but it is not part of the state government. As a result, VSAC hires its own personnel outside of the Vermont state personnel system. VSAC is governed by a board of directors who come from very specific specialty areas such as the department of education, higher education, the financial community, etc. VSAC administers a $12,000,000 direct grant program and has consolidated the loan and grant application process in Vermont so that one application serves both loans and grants.

VSAC is also a direct lender and now is the biggest guaranteed student loan lender in the state. By being a direct lender, VSAC can cut one check to an educational institution for all of its grants and guaranteed student loans, thereby streamlining and simplifying the process considerably. VSAC is the direct lender or which it has purchased in the secondary market is four times better than the overall Vermont default rate because of the closer control which VSAC is able to exercise over those loans.

Being the secondary lender appears to be critical for VSAC, because the earnings generated provide the funding for additional programs at no additional expense to the state. As a result, VSAC provides numerous important support services such as counseling for disadvantaged students, expanded adult education, and counseling in the middle schools. It is evident that VSAC's support programs have extremely successful. It clearly is a model that would serve as the basis for the conceptualization that is presented in this report.

Recommendations

- Loans, grants and counseling should be handled by one body.
- Consolidate secondary market and direct lending into the same entity.
- Review the activities of the state secondary market (MELMAC) to determine what mechanisms would be allowed by tax counsel to incorporate issuance of tax exempt bonds under the new entity.
- Use the already existing structure of the Maine Educational Loan Authority (MELA) to accomplish proposed program consolidation.
- Have a central source to disseminate information about higher education services in the state, including financial aid, loans, grants and all information related to aspirations.

Reexamine Current Contracts

If a new entity such as an authority or corporate body cannot be created and the current system is left in place, then the contracts of other states with USAF should be examined carefully and the USAF contract renegotiated. In the alternative, a request for proposal could be prepared and competitive bids solicited in order to ensure that the guaranty services which Maine is receiving are the best available. This process should be reviewed carefully with counsel, and the risks of litigation or adverse competition considered. Whether USAF or another contractor continues to service Maine loans, Maine should insist that as many aspects of the loan servicing process be performed in Maine as possible with any out-of-state contractor providing the computer hardware and software but with Maine personnel doing the majority of data processing.

- The Commissioner should create a working group to detail a proposal to explore the legal, financial, organizational, and political details necessary to establish an authority charged with all the foregoing responsibilities.

Funding Concern

The authority or corporate body suggested should be independent and self-financing. Grants to carry out specific projects might be made to it for special purposes by the state, but funds for such specific purposes should not be cut from the Department of Educational and Cultural Services unless a program has been transferred from the department to the authority.

MAINE STUDENT INCENTIVE SCHOLARSHIP PROGRAM

How it Works

Applying for and Receiving a MSISP Scholarship. Undergraduate students apply prior to May 1 for a Maine Student Incentive Scholarship (MSISP) by filing a Financial Aid Form (FAF) and paying $2.40 to the College Scholarship Service (CSS) in Princeton, New Jersey. The results of a needs analysis from CSS are then sent to the Maine Department of Educational and Cultural Services which uses the information to make awards and notify applicants in July. Postsecondary institutions begin receiving rosters of eligible students in August. Payment for the state scholarships is sent directly to colleges which must certify enrollment and some basic eligibility requirements.

Federal Matching. MSISP funds are matched with federal funds from the State Student Incentive Grant Program. Because of the matching funds, MSISP funding is administered as Title IV federal aid.

Consumer Information Dissemination. Information about MSISP is available on the Maine version of the Financial Aid Form which is usually distributed by Maine secondary school guidance officers and by postsecondary student financial aid offices. General information is also available in consumer literature to students and families made available by the Department of Educational and Cultural Services and colleges across the state.

General Findings

- Maine ranked last among the fifty states in the average amount of need-based scholarships awarded to students in 1986-87 and forty-ninth in 1987-88.

- From 1978-80 through 1986-87, more than half of the eligible applicants received no assistance. (Refer to Appendix E for a summary of the MSISP program for 1979-88). It should be noted that from 10% to 18% of the students who are offered awards ultimately do not accept them.

- Funds are allocated based on whether a student will attend a public or private institution. Program guidelines generally have envisioned that 70% of the funds be directed to students attending private institutions in Maine or institutions outside of Maine which are public or private. Likewise, Maine benefits from similar payments from other states coming into Maine. The balance of scholarship assistance from the program goes to students attending the University of Maine System, Maine's Vocational Technical Institutes, and Maine Maritime Academy.

- In 1987-88, all of the eligible applicants attending private institutions were funded at $430; those at public institutions were funded at $230.

- The annual amount of available funds has not surpassed the 1980-81 level of $1,179,788 until 1987-88 when the amount rose to $1,417,856. The College Board reports that, nationally, between 1980-81 and 1987-88, the cost of attendance at public, four-year colleges has risen 43.2% in constant 1982 dollars (91.5% in current dollars). In the same period, costs at private, four-year colleges rose 51.8% in constant 1982 dollars (103% in current dollars).

- Based on national trends, loans make up a larger percentage of aid packages now than a few years ago when scholarship and grant assistance was much more prevalent. In the middle 1970's grants comprised 80% of all aid, but 1987-88, that percentage had declined to 47%. Loans were estimated to account for 50.4% of all aid in 1987-88 according to The College Board.

- State administrative support to the MSISP was found to be very scant. In the absence of adequate administrative support such as staffing, equipment, and training sophisticated research and analysis on student aid appears to be virtually nonexistent at the state level. Only one computer programmer position exists among 548 other staff members in the Department of Educational and Cultural Services.

Relationship to Aspirations

The Maine Student Incentive Scholarship Program (MSISP) ought to be one of the principal mechanisms by which state government implements public policy decisions related to improving the aspirations of Maine young people. One result of raised aspirations will be increased desire to attend postsecondary educational institutions. One barrier to such attendance for many Maine students and their families is inability, or perceived inability, to finance the cost. Significant grants under the MSISP will, in combination with other available financial aid including loans, serve to motivate more of our state's citizens to continue their education -- with obvious benefit both to themselves and also to the economy of Maine.

Broadbased Constituency Support

Because of the importance of the MSISP to the higher education community, the various constituencies such as the Maine Higher Education Council, the Maine Independent Colleges Association, the Maine Association of Student Financial Aid Administrators, the Department of Educational and Cultural Services, and others have been consulted regarding various aspects of this program. Suggested policies for MSISP are believed to be acceptable to all of the groups that play an important role in higher education within our state. Accordingly, these recommendations are ready to be forwarded via this report to the Department of Educational and Cultural Services, the Governor, and the Legislature.

Program Goals

- To build upon existing efforts to promote student access and choice through state support of public postsecondary educational institutions and through state grant and loan programs that assist students attending both public and independent postsecondary educational institutions.

- To assure diversity in postsecondary educational program opportunities available through independent as well as public institutions.

- To help raise aspirations of Maine students by reducing cost as an obstacle to pursuit of a postsecondary education, recognizing that to accomplish this will require additional funding so that award levels can be significantly raised over award levels for 1988-89 and earlier years.

- To facilitate student choice by providing aid for programs in accredited postsecondary educational institutions, independent and public, within Maine and out-of-state.

- To assist every eligible student.

- To provide a level of grant funding that, when combined with other available grants and loans, will enable each student to attend the institution of his or her choice.

- To provide immediate assistance for all eligible full-time undergraduate students and to assist, when possible, part-time and graduate students.

- To assure that the authority or corporate body responsible for administering MSISP has the capacity to adopt procedures to ensure both student access and choice of institution. To assure that family ability to pay, as well as cost of attendance, be incorporated into program procedures for determining the size of awards. To provide that, when funding and circumstances require, the authority or corporate body administering the MSISP may give awards of less than $500, but never less than $200, when necessary to assist students who are eligible for less than a full award.

- To assure that if there are dramatic, unanticipated shifts in funding students at in-state independent, in-state public, or out-of-state independent or public institutions, either individually or collectively, the MSISP administrator shall take whatever steps are necessary to correct any imbalance within the constraints of the law. Such steps necessary to correct any imbalance shall be adopted as rules guiding the MSISP and shall follow the procedures of the Administrative Procedures Act.

Program Objectives

The following specific objectives are appropriate for use in making MSISP a more important mechanism relating to the raising of student aspirations, regardless of whether this program were to stay within the Department of Educational and Cultural Services or be placed under the recommended authority or corporate body. To begin, these objectives are intended to be implemented in three stages. The first year, 1989-90, would be transition year in which all independent institutions would see the total value of awards increased, while public institutions would experience increases in both total value and number of recipients. The second year, 1990-91, would allow all eligible (new and continuation) applicants to receive minimum $1,000 awards (independent in-state and out-of-state) and $500 awards (public in-state and out-of-state). The third year, 1991-92, would increase the level of minimum grants t $1,500 and $750; in addition, part-time and possibly graduate students would become eligible for MSISP awards. The expectation is that beginning in 1990-91, the total value of awards to independent institutions in Maine will increase even though their share of the total MSISP declines because of increases in the number of grant recipients attending public institutions. The three year phased-in recommendations are as follows:

By 1989-90:

- Provide a minimum $500 award for each eligible student
- Continue a 2:1 ratio of award amounts for students attending independent as compared to public institutions
- Provide continuity for current recipients of MSISP awards who remain otherwise eligible and enrolled continuously in an accredited postsecondary institution
- Fund all applicants with the least ability to pay first and not to discontinue funding (due to the impact on aspirations) for eligible students who have received past awards and who have been continuously enrolled and eligible for aid

By 1990-91:

- Fund the MSISP at a level that would achieve the four objectives previously described as applied to all eligible full-time undergraduate students (new and continuation)

By 1991-92:

- Increase minimum award levels to $1,500 and $750 and, when the program is fully funded, keep these levels current with inflationary changes
- Include part-time students in the program and study inclusion of graduate students

Technical Provisions

- To increase awards in 1989-90; 500 and $1,000 minimum awards in 1990-91; $750 and $1,500 awards in 1991-92
- To provide a 2:1 ratio of independent to public awards
- To define eligibility as a function of family contribution; students with lowest family contribution funded first
- To provide that students currently funded not lose their funding unless the family contribution increases to remove eligibility
- To provide the Congressional Methodology be used as the basis for needs analysis with appropriate adjustments and to provide that a minimum family contribution in keeping with task force principles should be included
- To analyze the methodology and award parameters to assure that eligible students attending the vocational technical institutes are funded in an equitable manner through the program
- To provide that no award be made if the Pell award plus the proposed MSISP award plus the family contribution exceed 75% of cost of attendance
- To proved that no maximum family contribution limits any award except previously described
- To provide that flexibility needs to be included to adjust awards as conditions and funding change

Recommendations

In addition to all of the foregoing described program recommendations, the following specific recommendations are offered:

- Legislation establishing an authority or corporate body to administer MSISP require that one of the directors or trustees of any such agency be required to be a college president or VTI director who is also a member of the Maine Higher Education Council

- As full funding is important for the aspirations of Maine students, full funding for MSISP at the levels previously described should be accomplished as soon as possible

APPENDICES

A. Definitions of Higher Education Funding Terms

B. TRIO in Maine

C. Overview of Statewide GSL & PLUS Program

D. Statewide Default Ratios

E. MSISP Fact Sheet

F. MSISP Funding and Allocation Alternative

Appendix A

Definitions of Higher Education Funding Terms

The following definitions are provided to help with the basic terms acronyms used in many financial aid publications.

1. Acknowledgment - The response you receive when you file the Financial Aid Form (FAF) or the Family Financial Statement (FFS).

2. Additional College Request (ACR) - Part of the acknowledgment; it allows a student to send copies of the FAF or FFS to additional colleges at a later date without filing a new application.

3. Aid to Need - A financial aid award that meets a student's full, calculated need.

4. Base Year - The calendar year preceding the academic year for which aid is requested. Base year is always used in need calculations by central services and government contractors.

5. College Work Study (CWS) - A federally sponsored work program for needy students. Eighty percent of the funds are provided by the federal government with the college share set at twenty percent. CWS jobs are federally funded in part, but the work performed does not differ in any way from other employment.

6. Cost of Attendance - The sum of charges for tuition, required fees, room, board and an allowance for books, supplies, personal expenses and travel (if applicable). The cost is established by the college.

7. Expected Family Contribution (EFC) - The amount derived through a needs analysis formula which parents and the student can reasonably be expected to pay for college costs from both their income and their assets.

8. Financial Aid Form (FAF) - A nationally distributed aid application for federal, state and institutional aid published annually by the College Scholarship Service of the College Board.

9. Family Financial Statement (FFS) - A nationally distributed aid application for federal, state and institutional aid published annually by American College Testing Program.

10. Federal Aid - Financial aid that is provided, either directly or indirectly, to students in the form of grants, loans and jobs. All of this aid is need based. The five major federal aid programs are: Pell Grants, SEOG, Perkins Loans, GSL and CWS.

11. Financial Aid - A sum of money to assist a student with the educational expenses included in the cost of attendance.

12. Financial Aid Package - The term used to describe an award composed of two elements: grant and self help; the self help may include either loan or job or both. The grant and self help funds could come from federal, state, institutional or any combination of these sources.

13. Financial Need - The difference between the student's cost of attendance and his or her resources, principally the expected family contribution.

14. Grant - That part of a student's financial aid that is gift and does not require repayment or other obligation on the student's part. Other terms that mean the same thing are scholarship grant, grant aid or gift aid.

15. Guaranteed Student Loan (GSL) - Low interest loans provided to students by private lenders, mostly banks. These loans are need based and the student's eligibility for them is determined by the college. GSL is often included as part of the student's financial aid package even though the student must apply separately for the approved amount at a lender of his or her choice.

16. Job - Employment provided by or through a college to help a student with current educational expense. Includes jobs under CWS.

17. Loan - That part of a student's financial aid package that the student must borrow and eventually repay. Most of these loans carry no interest while the student is in school and a subsidized rate during repayment. The repayment period begins after the student leaves school and usually runs ten years or more, with time out for graduate work, military, Vista, Peace Corps and other services. Cancellation options, exist under certain circumstances on some of these loans. Perkins Loans and GSL are the largest of the loan program currently available to students.

18. Need Analysis - The method, or formula that is used to derive the Expected Family Contribution (EFC). Most colleges now use the "Congressional Methodology", which is the formula that establishes eligibility for federal aid, although adjustments to it for other forms of aid or for unusual family circumstances are not uncommon.

19. Outside Aid - A term commonly used to describe any form of financial aid, especially grants, that come from outside the institution and is not under the direct control of the college itself.

20. Parental Contribution (PC) - That part of the Expected Family Contribution (EFC) that comes from parents' income and assets. It is based upon information supplied by parents on the FAF, the FFS or some other acceptable aid application.

21. Pell Grant - An entitlement grant from the federal government. The amount is determined by formula (somewhat different from the Congressional Methodology) and the grant is available for a student's use at any accredited or recognized postsecondary institution.

22. Perkins Loan - A federally sponsored, revolving loan program that is need based. Ninety percent of the money for these loans comes from the federal government with the remainder provided by the college. Unlike GSL, all Perkins Loans are given by the college itself.

23. Student Aid Report (SAR) - The report the student receives when he or she applies for a Pell Grant. The SAR also includes a payment document for those who are eligible for a Pell Grant; the complete SAR, including that payment document, must be submitted to the financial aid office of the college the student attends before payment of the Pell Grant can be made.

24. Satisfactory Academic Progress - Each institution must establish and publish its criteria for the standards and time frame to complete its program. To be eligible for financial aid the student must usually satisfy those institutional requirements. Maintaining satisfactory academic progress is mandatory for all federal funds in any case.

25. Self Help - The part of the aid package that includes loan and/or job offer and thus places ultimate responsibility for repayment or earnings upon the student.

26. Supplementary Educational Opportunity Grant (SEOG) - A sum of money given to colleges by the federal government for subsequent division and distribution to the neediest students on the basis of their aid application to those colleges. Not related in any way to Pell Grant.

27. Verification - A process of confirming the accuracy of the family information income and asset data on the original aid application. Usually requires a family to submit supporting documentation, such as a tax return, and may include other items as well. Verification can take place either before or after an award has been made and awards can be adjusted if verified data is significantly different from estimates used on the aid application. Some aid applications are verified every year and some colleges routinely verify all aid applications.

Appendix B
TRIO IN MAINE 1985-86

Programs: 12	Upward Bound (4)	Talent Search (1)	Special Services (7)
Numbers Served: 3458	337	1301	1820
Federal Budget & (cost per client) $1,596,594 ($461)	$675,201 ($2003)	$138,976 ($106)	$782,417 ($429)
Locations:	Bowdoin College UM-Farmington UM-Presque Isle UMaine	UMaine	Husson College Unity College UM-Augusta UM-Farmington UM-Fort Kent UM-Presque Isle UMaine
Services Offered:	Basic skills instruction, personal counseling, tutoring, academic advising. Also, career exploration & assistance in applying to college & for financial aid. Students spend 6 weeks on a college campus during the summer receiving the above services and attending weekly cultural events/activities. Senior students also attend a 3-day urban field trip.	Information & counseling regarding post-secondary programs, their admissions requirements & financial aid available. Also, interest testing, career exploration & academic advising.	Tutorial services Diagnostic testing Academic advising Personal counseling Instruction (special courses) Financial aid counseling Peer counseling (adaptive) Special Services for Handicapped.
Eligible Participants:	Low income, first generation and physically handicapped students, primarily rural Mainers whose educational and cultural backgrounds have impeded their ability to successfully pursue and complete either secondary or post-secondary education.		
Goals:	To identify qualified high school students and adults from low-income families who are the first generation in their family to attend college; to prepare these individuals for post-secondary education; to provide special supportive services for them while they pursue programs of post-secondary educatipn; and to help high school students acquire skills and motivation to stay in high school and pursue post-secondary education. In order to facilitate these primary goals, the training of persons serving or preparing for service in programs and projects so designed is also emphasized.		
Results:	About 75% of participants enroll in some form of education beyond the secondary level. Low secondary dropout rates (- 1%).	Over 60% of program participants enroll in some form of educa- beyond the secondary level. Low secondary dropout rates (-1%).	Increased access and retention of physically handicapped, low income and first generation college students.

APPENDIX C

June 13, 1988

Report of Subcommittee on Loans
GSLs, PLUS Loans ($000 Omitted) (# Loans)

	GSLs	PLUS Loans	Totals
1984	$43.9 (21149)	$1.4 (558)	$45.2 (21707)
1985	44.5 (21403)	1.7 (673)	47.2 (22076)
1986	40.4 (18878)	1.8 (682)	42.2 (19560)
1987	33.6 (24743)	1.7 (624)	35.3 (25367)

Number of Lenders

1984	81
1985	78
1986	78
1987	83

Use by Maine Students

	At Maine Institutions	At Out-of-State Institutions
1984	$29.7	$14.1
1985	30.7	13.8
1986	27.0	13.4
1987	19.4	14.1

APPENDIX D

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON D C 20202

GUARANTEED STUDENT LOAN FY 1985 DEFAULT RATES BY POSTSECONDARY INSTITUTIONS

Attached is a list indicating the FY 1985 default rate of the 7,295 postsecondary institutions, grouped by state or location, participating in the Guaranteed Student Loan (GSL) program. The FY 1985 default rate is calculated as the percentage of borrowers entering repayment in FY 1985 who default before the end of FY 1986.

This listing is based on FY 1985 and FY 1986 GSL data reported by state and other guarantee agencies to the Department of Education. These data were voluntarily reported. Starting in FY 1987, reporting of these data is mandatory and data quality will be improved.

For each institution, the following information is provided:

1. Institutional name as listed on the FY 1986 data base. Some of the institutions listed have since closed.

2. Default rate (percent in default) calculated as a percentage of borrowers entering repayment status in FY 1985 who default in FY 1985 or FY 1986. On the printout this is called a "2-year rate," but technically this default rate is known as the FY 1985 "cohort default rate" because the rate tracks the defaults of the group (cohort) of borrowers entering repayment status in FY 1985 for two years (FY 1985 and FY 1986).

3. Number of borrowers in repayment status. This is the number of borrowers entering repayment status in FY 1985, not the number of borrowers repaying their loans. To get the number of defaulters, multiply the default rate by the number of borrowers in repayment status.

For further information, contact:

John Bertak or Tom Lyon
Office of Public Affairs
U.S. Department of Education
Washington, D.C. 20202
(202) 732-4576

Release date: 3/4/87

TABLE 11 COMPARISON OF CUMULATIVE DEFAULT RATES AGENCIES VS. HEAF/USAF

FOR STATE RESIDENTS THROUGH FY 1985 (%'s IN THOUSANDS)

STATE	DEFAULTS AGENCY	DEFAULT RATE AGENCY	DEFAULT RATE HEAF	DEFAULT RATE USAF
Alabama	$ 14,990	11.60%	17.31%	9.2%
Alaska	480	2.50%	12.17%	14.70%
Arkansas	6,023	4.50%	18.16%	11.46%
Arizona 1/	69,763	21.90%	15.94%	28.83%
California	439,830	18.70%	7.50%	17.10%
Colorado	27,955	8.00%	14.21%	15.00%
Connecticut	137,139	10.40%	5.71%	5.24%
Dist. of Col. 1/	38,549	21.00%	28.03%	14.82%
Delaware	5,234	6.90%	8.05%	29.88%
Florida	98,384	13.70%	16.60%	13.01%
Georgia	37,809	9.90%	15.17%	15.20%
Hawaii 1/	7,282	10.70%	8.63%	13.10%
Iowa	29,245	4.40%	16.07%	12.39%
Idaho	10,681	14.70%	9.08%	20.44%
Illinois	264,215	14.30%	16.13%	15.10%
Indiana	23,058	4.30%	12.25%	13.37%
Kansas 1/	76,076	16.90%	14.97%	8.63%
Kentucky	25,429	8.90%	16.54%	10.05%
Louisiana	41,786	13.30%	15.58%	19.53%
Massachusetts	173,339	9.90%	6.05%	4.40%
Maryland	70,641	12.50%	17.33%	8.06%
Maine	21,780	8.50%	8.17%	6.17%
Michigan	152,125	12.50%	10.56%	15.46%
Minnesota 1/	103,729	11.00%	9.55%	7.57%
Missouri	57,208	12.40%	20.52%	14.14%
Mississippi	9,874	13.30%	13.46%	9.63%
Montana	5,360	7.30%	8.19%	16.98%
No. Carolina	17,193	7.40%	12.59%	6.65%
North Dakota	5,254	8.90%	6.95%	9.94%
Nebraska	36,734	13.00%	12.78%	13.44%
New Hampshire	12,131	8.00%	6.44%	6.69%
New Jersey	263,261	13.10%	10.91%	7.53%
New Mexico	5,094	6.20%	9.77%	24.16%
Nevada	9,673	14.20%	10.33%	24.81%
New York	925,431	13.80%	6.11%	6.39%
Ohio	51,875	3.40%	20.54%	12.14%
Oklahoma	27,428	13.60%	23.21%	15.12%
Oregon	24,288	7.40%	6.80%	24.31%
Pennsylvania	478,937	13.40%	9.59%	3.73%
Puerto Rico	3,539	5.30%	7.32%	13.25%
Rhode Island	23,483	9.30%	5.30%	4.70%
So. Carolina	1,443	3.10%	11.79%	10.97%
South Dakota	12,214	5.90%	8.89%	7.25%
Tennessee	22,277	3.70%	22.21%	15.77%
Texas	58,640	10.00%	11.00%	14.96%
Utah	19,434	10.00%	7.82%	12.21%
Virginia	53,336	7.80%	9.85%	5.39%
Vermont	7,866	6.10%	11.95%	5.94%
Washington	33,484	11.20%	7.72%	17.73%
Wisconsin	142,111	12.40%	7.99%	8.71%
West Virginia 1/	29,239	14.20%	16.51%	9.62%
Wyoming	2,916	7.70%	7.02%	9.85%

STATE	DEFAULTS AGENCY	DEFAULT RATE AGENCY	DEFAULT RATE HEAF	DEFAULT RATE USAF
HEAF NATIONAL	73,932	19.70%	N/A	N/A
USAF NATIONAL	91,885	9.20%	N/A	N/A
Total	$4,381,523	12.10%	13.26%	16.47%

1/ Programs Operated By NEAF or USAF

MAINE

SCHOOL NAME	IN DEFAULT (2 YEAR RATE)	BORROWERS IN REPAYMENT STATUS
Mansfield Beauty Academy of Maine	56.0000	25
Beauty Academy of Maine	55.5556	9
Univ. of Maine Gorham State College	33.3333	3
Univ. of Maine at Fort Kent	26.6667	45
Pierres School of Beauty Culture	24.7059	85
Mid-State Business College	23.8938	113
Mansfield Beauty Academy of Maine	23.8095	63
Maine State Academy of Hair Design	22.2222	72
Mr. Richard's Hairstyling Academy	22.2222	9
Univ. of Maine at Augusta	20.2703	148
Maine Med. Ctr. Sch. of Operat. Rm. Tech.	20.0000	10
Andover College	19.2661	218
Portland School of Art	18.7500	48
Univ. of Maine at Presque Isle	17.9104	134
Univ. of Maine at Machias	17.5676	74
College of the Atlantic	16.6667	24
Nasson College	15.3846	13
Kennebec Valley Voc. Tech. Institute	15.0000	60
Casco Bay College	14.4444	90
Univ. of Southern Maine	13.7853	885
So. Maine Voch. Tech Institute	12.6904	197
Mr. Bernard's Sch. of Hair Fashion, Inc.	12.5000	32
Washington County Voc. Tech Inst.	11.3208	106
No. Maine Voc. Tech. Institute	10.4839	124
Beal College	10.3774	106
Unity College	9.8361	61
Univ. of Maine at Farmington	9.1286	241
Husson College	8.2988	241
Westbrook College	7.9545	176
Bangor Theological Seminary	7.6923	13
Univ. of Maine at Orono	7.3999	1473
St. Mary's Gen. Hosp. Sch. of Nursing	7.1429	14
D'Lor Beauty School	6.8966	24
Eastern Maine Voc. Tech. Institute	6.7227	119
Thomas College	6.0606	99
Mercy Hosp. Sch. of Nursing	5.8824	17
Central Maine Voc. Tech. Institute	4.0541	74
St. Josephs College	3.9801	201
Univ. of New England	3.6697	109
Central Maine Med. Ctr. Sch. Nursing	3.4483	29
Maine Maritime Academy	3.1250	96
Bowdoin College	2.8090	178
Colby College	1.3514	222
Bates College	1.1236	178
Central Maine Med. Ctr. Sch. Rad-Tech	0.0000	2
Maine Med. Ctr. Sch. of Rad-Tech	0.0000	1
Mercy Hosp. Schol of X-Ray Tech.	0.0000	3
Thayer Hosp. Sch. of X-Ray Tech.	0.0000	4
Eastern Maine Med. Ctr. Sch. of Nursing	0.0000	14
Central Beauty School	0.0000	20
St. Mary's Gen. Hosp. Sch. of Nurse Anesth.	0.0000	2
Univ. of Maine at Bangor	0.0000	1
Eastern Maine Med. Ctr. Sch. Nur. anest.	0.0000	7
Mercy Hosp. Sch. of Anesthesia	0.0000	3
St. Joseph Hosp. Sch. Diploma Nursing	0.0000	1
Maine Medical Ctr.-Sch. of Med-Tech.	0.0000	1
New England Col. of Osteopathic Med.	0.0000	21

Appendix E.

MAINE STUDENT INCENTIVE SCHOLARSHIP PROGRAM (MSISP)
FACT SHEET FOR THE YEARS 1979-88

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Number of Applications	8,739	13,712	15,852	13,613	13,857	12,396	12,727	14,046	13,691
Number (and %) of Eligible Applicants	N/A	8,723 (64%)	12,567 (79%)	9,445 (69%)	11,703 (84%)	8,009 (65%)	7,911 (62%)	8,795 (62%)	8,208 (60%
Number (and %) of Recipients	2,852	4,313 (49%)	1,550 (12%)	1,102 (12%)	2,627 (22%)	3,277 (41%)	2,071 (26%)	4,141 (47%)	4,815 (59%
Total of Awards	$1,062,097	$1,179,788	$536,788	$517,756	$476,795	$794,414	$809,380	$1,151,388	$1,417,836
Average Award	$372	$273	$346	$470	$181	$242	$391	$278	$294
Average Student Need	$1,676	$2,633	$3,673	$4,425	$5,560	$5,735	$6,967	$6,585	$6,262
Average of Gross Family Income (Recipients)	$8,278	$14,926	$15,605	$16,927	$16,628	$15,742	$16,733	$14,712	$15,156
Percentage of Recipients by:									
(a) Maine Public Institutions	60%	61%	37%	38%	35%	43%	44%	64%	64%
(b) Private and Out-of-State Public Institutions	40%	39%	63%	62%	65%	58%	56%	36%	31%
(c) In-State	100%	92%	73%	72%	73%	72%	63%	70%	74%
(d) Out-of-State	--	8%	27%	28%	27%	29%	37%	30%	26%

MSISP FUNDING AND ALLOCATION ALTERNATIVE

The Higher Education Council of the State of Maine (HEC) endorses the following MSISP funding and allocation alternative. The Higher Education Council stands unified and firm in its attempts to: increase financial aid available to students, maintain access to higher education, support students' freedom of choice in selection of institutions, and meet the goals established by the Maine Legislature in 1977. Specifically, HEC proposes the following:

1) That the total MSISP allocation be increased by $1,000,000 annually up to the year 1993-1994.

2) That the individual award level for students attending private institutions be twice that of students attending public institutions.

3) That there be a maximum award amount of $1,500 per private institution recipient (amount specified by current law) and $750 per public institution recipient.

4) That increases in the amount of the award be phased in over four years maintaining incremental increases of two to one. Until all eligible recipients are served, award amounts will not exceed the above stated maximums.

[By 1990-1991, all private institution students will be funded, but approximately only one-third of public institution students will be funded. The cap of $1,500 would be maintained through 1993-1994 at which time, 100% of eligible private institution students would receive $1,500 and 100% of eligible public institutions would receive $750.]

5) That allocation to public institutions will not be less than 30% of the total allocation.

6) That following the year 1993-1994, efforts will be made to raise the funding limits for both public and private, continuing the two to one ratio.

	ALLOCATION					NUMBER OF APPLICANTS			NUMBER RECEIVING AWARDS				LOAN AMOUNT	
	A	B		C		D	E	F	G		H		I	J
Year	Total	Public		Private		Total	Public	Private	Public		Private		Public	Private
	$	$	%	$	%	#	#	#	#	%	#	%	$	$
86-87	1,160,522	348,157	30	812,365	70	8,700	6,500	2,200	1,740	27	2,030	92	200	400
87-88	2,160,522	675,125	31	1,485,396	69	8,700	6,500	2,200	2,000	31	2,200	100	338	675
88-89	3,160,522	1,070,126	34	2,090,396	66	8,700	6,500	2,200	2,252	35	2,200	100	475	950
89-90	4,160,522	1,465,126	35	2,695,396	65	8,700	6,500	2,200	2,392	37	2,200	100	613	1,225
90-91	5,160,522	1,860,522	36	3,300,000	64	8,700	6,500	2,200	2,480	38	2,200	100	750	1,500
91-92	6,160,522	2,860,522	46	3,300,000	54	8,700	6,500	2,200	3,814	59	2,200	100	750	1,500
92-93	7,160,522	3,860,522	54	3,300,000	46	8,700	6,500	2,200	5,147	79	2,200	100	750	1,500
93-94	8,160,522	4,860,522	60	3,300,000	40	8,700	6,500	2,200	6,481	100	2,200	100	750	1,500

Approved by HEC Membership, April 11, 1987